



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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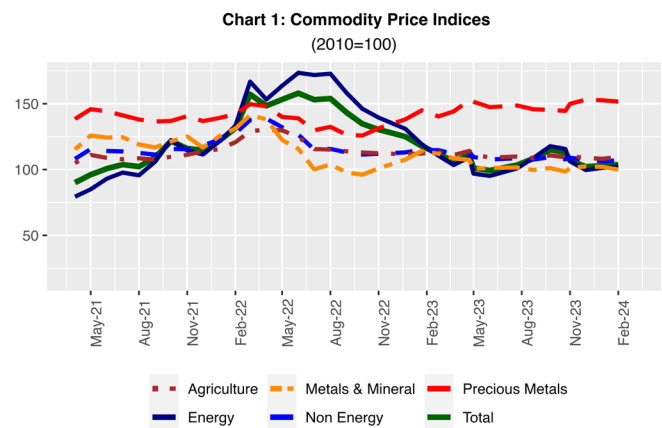
Economic Activity

Global growth momentum continued despite the ongoing impacts of past monetary policy tightening in advanced economies and persistent high inflation. In the United States, the manufacturing and services sectors recorded increases, which supported domestic demand. The manufacturing sector performed well, driven by improved supply chains, increased new orders, and favourable weather conditions. However, in the United Kingdom, economic activity was affected by bad weather condition. The declines in the manufacturing output and retail sales outweighed the growth in the services sector. In addition, elevated inflation pressure prompted the Bank of England to maintain the policy interest rate at 5.25 percent to reduce inflation rate to the target rate of 2.0 percent. The Euro area experienced moderate improvement in economic activity with the dominant services sector showing slightly more growth than the contraction in the manufacturing sector. Japan's economy remained resilient despite weak consumer demand and business investments. Consumer confidence improved, and there was higher employment, particularly in the services sector, which supported growth. Among the emerging market and developing economies, China experienced growth, with a notable increase in automobile sales. However, employment declined as companies adopted cost-effective measures to enhance efficiency. India's economy saw robust growth in the manufacturing sector, underpinned by strong domestic demand and improvement in sales.

Commodity Prices

International commodity price data published by the World Bank indicated mixed movements across major commodity prices in February 2024. The overall world commodity price index increased by 0.8 percent, compared to an increase of 0.79 percent in January 2024. This mainly reflected an increase in the energy, and non-energy price index. The energy price index increased by 1.07 percent, reflecting a 3.7 percent increase in average crude oil prices to US\$80.55 per

barrel, which offset a decline of 26.13 percent in the average natural gas price index. The non-energy price index increased by 0.28 percent, reflecting an increase in agriculture prices, which offset a decrease in the metals and mineral price index. The precious metals price index fell by 0.65 percent, mainly indicating decreases in the prices of gold and silver by 0.53 percent and 1.13 percent, respectively. The data as of February 2024 indicated that international prices for all of Papua New Guinea's major export commodities showed mixed outcomes, compared to January 2024 (Chart 1).



Source: World Bank

Balance of Payments

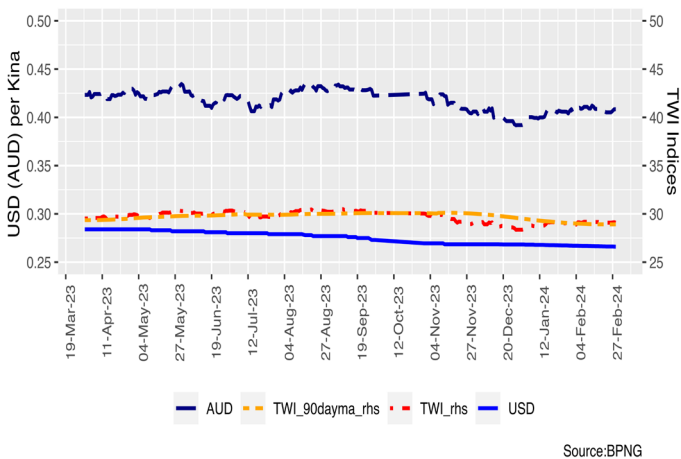
Preliminary overall balance of payments data for 2023 showed a surplus of K199.4 million, compared to a surplus of K2,839.2 million in 2022. This outcome was due to a surplus of K28,747.6 million in the current and capital account, which more than offset a deficit of K30,484.4 million in the financial account. The outcome in the current and capital accounts was due to a surplus in trade and net secondary income receipts, and capital inflows for project financing, which more than offset net service and primary income payments. The deficit in the financial account was attributed to net outflows from direct and other investments reflecting the outflow of funds from offshore foreign currency accounts for investments and debt service payments on external loans, respectively. The external loan repayments were from the Government and mineral companies, including the PNG LNG project partners.

The level of gross foreign exchange reserves at the end of December 2023 was K14,477.4 (US\$3,956.7) million, sufficient for 9.9 months of total and 17.8 months of non-mineral import covers. As of the month ending February 2024, the level of gross foreign exchange reserves was K13,902.89 (US\$3,639.5) million.

Exchange Rate

The monthly average kina exchange rate against the US dollar (USD) depreciated by 0.41 percent to US\$0.2666, while it appreciated against the Australian dollar (AUD) by 1.4 percent to A\$0.4080 over the month to 29th February 2024. The depreciation of the kina against the USD reflected the persistent foreign currency demand in the foreign exchange (FX) market. Against the AUD, the appreciation of kina was attributed to cross-currency movements as the AUD weakened against the USD due to expectations that Australia's economy would weaken due to Reserve Bank of Australia maintaining high interest rates to curb the persistent inflationary pressures. Over the month to 29th February 2024, the Trade Weighted Index (TWI) increased to 29.26, from 28.88 in January 2024. The monthly average TWI increased by 1.29 percent to 29.26 as of the 29th of February 2024. The monthly average outcomes mainly reflected the appreciation of the kina against the AUD (Chart 2).

Chart 2: Exchange Rate & Trade Weighted Index
(Monthly-End of Period)



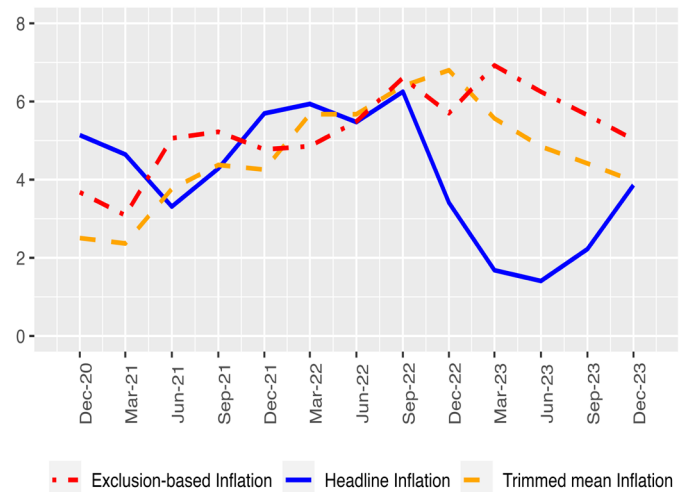
Source:BPNG

Inflation - Consumer Price Index

The annual headline inflation, as measured by the Consumer Price Index (CPI), increased by 3.9 percent in the December quarter of 2023, compared to an increase of 2.2 percent in the previous quarter. All expenditure groups recorded increases except, a decline in the Education and Communication expenditure groups. The largest increase was in the Alcoholic Beverages, Tobacco, and Betelnut. These more than offset declines in the Education and

Communication expenditure groups. The NSO's quarterly exclusion-based inflation measure (which is the overall CPI excluding seasonal, customs excise, and price-regulated items) declined by 0.4 percent in the December quarter of 2023, compared to an increase of 0.6 percent in the previous quarter. Annual exclusion-based inflation was 2.2 percent in the December quarter of 2023, compared to 3.2 percent in the previous quarter. The annual trimmed mean inflation was 4.0 percent in the December quarter of 2023, compared to 4.5 percent in the previous quarter (Chart 3).

Chart 3: Consumer Price Index
Annual (percentage change)



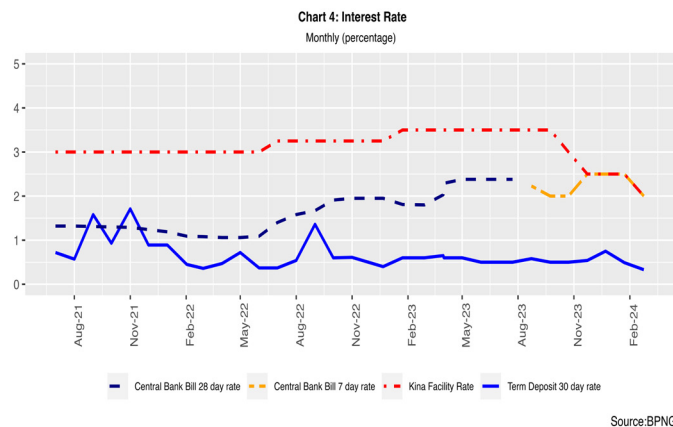
Source:BPNG

Inflation - Retail Price Index

Annual headline Retail Price Index (RPI) to February 2024 increased by 3.2 percent, compared to an increase of 1.5 percent in the previous year. This was due to price increases in Health, Alcoholic beverages, tobacco and betelnut, Household Equipment, Transport, Food and non-alcoholic beverages and Miscellaneous expenditure groups of 11.8 percent, 9.2 percent, 8.1 percent, 3.7 percent, 3.1 percent and 1.9 percent, respectively. The increase in the Health expenditure group was due to an increase in the Medical supplies sub-group, while the increase in the Alcoholic beverages, tobacco and betelnut expenditure group was due to increases in each sub-groups. The increase in the Household equipment expenditure group reflected price increase in the Maintenance sub-group. The RPI ex-seasonal and RPI ex-seasonal and fuel increased by 2.2 percent and 1.4 percent, respectively. Quarterly headline RPI inflation increased by 0.4 percent in the three months to February 2024, compared to an increase of 1.8 percent in the previous quarter. The RPI ex-seasonal decreased by 0.2 percent, while RPI ex-seasonal and fuel increased by 0.3 percent.

Domestic Interest Rates and Monetary Aggregates

The Bank of PNG reduced the policy rate, the Kina Facility Rate by 50 basis points to 2.00 percent. The 7-day Central Bank Bill, the short-term liquidity instrument under the Fixed Rate Full Allotment (FRFA) auction was reduced to 2.00 percent. For the Treasury Bill auction, the rates for all the terms decreased. The 182-day, 273-day and 364-day terms declined by 4 basis points (bps), 10 bps and 22 bps, to 2.00 percent, 2.49 percent and 3.22 percent, respectively. During the same period, the weighted average interest rates on wholesale deposits (K500,000 and above) generally increased, except for the 30-day and 360-day terms. The rates for the 60-day, 90-day, 180-day and 270-day terms increased by 2 bps, 9 bps, 64 bps and 33 bps, to 0.50 percent, 2.25 percent, 1.45 percent and 1.05 percent, respectively. The rates for the 30-day and 360-day terms declined by 21 bps and 134 bps, to 0.33 percent and 1.81 percent, respectively (Chart 4).



Broad money supply increased by 7.6 percent over the 12 months to January 2024, compared to an increase of 16.9 percent in the corresponding period of 2023. This outcome was due to an increase in net domestic assets (NDA) of the depository corporations, which more than offset a decline in net foreign assets (NFA).

The increase in NDA was due to an increase in lending by commercial banks to the private sector, while NFA's decline reflected a reduction in Central Bank's FX reserves due to monthly intervention of US\$100.0 million and Government debt repayments of US\$40.0 million. Monetary base declined by 5.6 percent in the twelve months to January 2024, compared to an increase of 15.5 percent in the corresponding period of 2023. This outcome is driven by a decline in the deposits of commercial banks at the Central Bank (mainly Exchange Settlement Account or ESA). The decline in ESA reflected increased interventions by the Central Bank at the FX market.

Commercial banks' lending to public non-financial corporations, other financial corporations and other resident sectors in 2023 increased by K468.5 million to K16,644.2 million between December 2023 and the week ending 16th February 2024. The increase was driven by lending to the mining, agriculture, transport and construction sectors. Over the year, the weekly average lending by banks increased by 9.4 percent to K16,440.7 million. The deposit level as of 16th February 2024 increased by K304.4 million to K33,410.5 million, compared to the end of 2023. The increase was mainly due to placements of funds by the manufacturing, retail and petroleum sectors. Over the year, the weekly average deposits increased by 4.7 percent to K33,404.3 million.

Monetary Policy

The Bank eased its monetary policy stance by reducing its policy rate, the Kina Facility Rate by 50 basis points to 2.0 percent in February 2024. The easing monetary policy stance aims to encourage commercial banks to support lending and activity following the impact of the civil unrest in January and support businesses to rebuild from their losses.

Authorised for release by **Ms. Elizabeth Genia**, AAICD, **Governor**

Papua New Guinea Key Economic Indicators

		Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
1. Consumer Price Index (CPI)	Headline	-	1.70	-	-	1.49	-	-	2.20	-	-	3.90	-	-
	Food	-	8.70	-	-	7.45	-	-	6.40	-	-	5.50	-	-
	Underlying	-	3.00	-	-	2.15	-	-	1.30	-	-	0.70	-	-
2. Retail Price Index (RPI) (YOY% Change)	Headline	1.8	1.5	0.4	0.6	0.5	0.8	0.7	1.5	2.0	3.2	3.6	3.4	3.2
	Ex-seasonal	1.4	1.3	0.1	0.1	0.0	0.5	0.5	1.4	1.9	3.3	3.3	2.7	2.2
3. Exchange Rates (mid-rate, eop*)	USD	0.2840	0.2840	0.2840	0.2820	0.2800	0.2790	0.2770	0.2730	0.2695	0.2685	0.2683	0.2677	0.2666
	AUD	0.4224	0.4233	0.4296	0.4233	0.4229	0.4174	0.4271	0.4225	0.4245	0.4041	0.3920	0.4025	0.4080
	GBP	0.2359	0.2294	0.2278	0.2265	0.2223	0.2171	0.2179	0.2233	0.2219	0.2114	0.2102	0.2107	0.2110
	JPY	38.7100	37.7500	38.3500	39.4400	40.5050	39.5700	40.4200	40.7200	40.4900	39.4800	37.9100	39.1100	39.8228
	NZD	0.3811	0.4522	0.4624	0.4695	0.4605	0.4502	0.4652	0.4546	0.4623	0.4350	0.4222	0.4330	0.4348
4. Trade Weighted Index (TWI)					29.9641	30.3362	29.6610	30.2667	30.3260	30.0342	29.5043	28.7774	28.8835	29.2559
5. Balance of Payments	Current & Capital Account (a) (PGK mill)	2,751.1	3,220.5	2,563.2	3,100.7	279.3	2,019.1 p	2,357.4 p	1,984.1 p	2,120.2 p	2,153.9 p	28,762.9 p	-	-
	Financial Account (b) (PGK mill)	-4,043.0	-3,841.0	-2,855.5	-3,036.1	-395.3	-1,925.5 p	-2,831.0 p	-2,277.0 p	-1,698.3 p	-3,753.9 p	-31,991.6 p	-	-
	Overall Balance (PGK mill)	-150.7	-146.4	-361.7	166.4	-310.6	-371.4 p	733.3 p	-390.8 p	-699.2 p	1,240.4 p	-199.4 p	-	-
	Foreign Exchange Reserve (eop) (US\$ mill)	3,989.5	3,917.5	3,859.5	3,882.8	3,760.7	3,647.3	3,833.1	3,677.0	3,425.5	3,647.1	3,956.7	3,795.20	3,639.5
6. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	55.7	55.1	51.9	51.9	49.1	49.3	48.8	48.2	47.1	48.5	47.7	48.4	49.6
	Bank's Demand Deposits (K'bn)	27.9	27.9	28.5	28.4	28.2	28.2	28.4	28.5	29.0	29.0	29.8	25.4	-
7. Money and Credit (YOY % Change)	Broad Money	17.4	9.1	11.7	9.9	11.4	-3.8	9.6	8.6	9.4	12.3	10.4	7.6	-
	Monetary Base	23.9	17.9	29.4	7.3	20.3	12.6	8.7	3.4	2.2	2.2	-8.7	-5.6	-
	Private Sector Credit	14.8	7.0	7.3	7.8	12.7	-5.9	13.8	13.8	16.0	13.3	19.3	14.7	-
8. Interest Rates (% pa) (monthly weighted average)	Kina Facility Rate (KFR)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	2.5	2.5	2.0	2.0
	Central Bank Bill (7 days)	-	-	-	-	-	-	2.2	2.0	2.0	2.5	2.5	2.5	2.0
	Central Bank Bill (28 days)	1.80	2.03	2.4	2.4	2.4	2.4	2.4	-	-	-	-	-	-
	Commercial Bank Term Deposit (30 days)	0.59	0.65	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.8	0.5	0.5
	Government Treasury Bill (364 days)	2.65	2.81	3.1	3.0	2.8	3.0	2.8	2.0	3.6	3.6	3.5	3.5	3.1
9. Commodity Prices (monthly average) (c)	Oil (\$/bbl)	80.3	76.5	82.5	74.1	73.3	79.0	84.7	92.2	89.1	81.4	75.7	77.7	80.5
	LNG (\$/mmbtu)	18.4	16.0	14.4	13.4	12.7	13.0	12.5	12.5	12.6	12.7	14.4	14.3	14.2
	Gold (\$/troy oz)	1,863.1	1,906.9	2,001.7	1,987.0	1,940.3	1,947.8	1,922.5	1,915.8	1,904.6	1,987.3	2,026.0	2,034.0	2,023.0
	Copper (\$/mt)	8,986.2	8,845.3	8,822.4	8,231.5	8,396.8	8,435.1	8,361.0	8,258.0	7,925.8	8,170.1	8,401.7	8,354.8	8,302.5
	Nickel (\$/tonne)	27,138.2	23,387.2	23,683.2	22,167.1	21,187.5	20,853.8	20,510.6	19,578.5	18,274.6	17,012.6	16,364.3	16,092.5	16,371.3
	Cobalt (\$/tonne)	38,100.6	33,576.3	34,248.0	32,780.6	28,932.3	32,732.5	32,729.9	32,732.0	32,732.0	32,752.8	29,840.9	28,439.5	28,003.5
	Coffee (\$/tonne)	5,042.9	4,913.2	5,060.8	4,839.1	4,553.0	4,261.0	4,122.6	4,045.4	4,044.3	4,345.0	4,659.4	4,434.0	4,585.6
	Cocoa (\$/tonne)	2,571.6	2,669.6	2,809.6	2,908.8	3,140.8	3,341.1	3,454.0	3,625.9	3,667.3	3,672.3	4,290.8	4,249.4	5,650.0
	Palm Oil (\$/tonne)	997.1	1,026.4	1,037.3	948.4	921.5	995.5	960.5	951.5	909.1	971.5	949.8	940.1	980.3

Notes:

p provisional

r revised

* end of period

(a) It use to be Current Account under BPM5 version

(b) It use to be Capital and Financial Account under BPM5 version

(c) BPNG introduced the CBB 7-day term and withheld the CBB 28-day term